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TARIFFS AND INDUSTRY

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A SURVEY of the policy of Discriminating Protection followed by the Government of India since 1923 shows that, in the rather limited sphere where it has been applied, substantial success has been achieved: the steel, cotton piecegoods, sugar, match and paper industries have all registered remarkable progress in the past fifteen years. But should the policy be continued in the post-war period? The most urgent pre-requisite for increasing the national income is rapid and widespread industrialization, and India's tariff policy should be determined by that need. It is argued that, in view of the lengthy period of reconstruction throughout the world that will follow this war, restrictions on the import of consumer's goods will be desirable at first in order to conserve foreign exchange for the purchase of capital goods; but tariff protection for Indian industries will be unnecessary for many years to come.

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TARIFFS AND INDUSTRY

It is proposed to deal in this pamphlet, *first*, with the origin and working of the present policy of Protection in India and, *secondly*, with the problem of industrial development in India and the extent to which protective tariffs can help it in the post-war period.

I. Origin and Working of Discriminating Protection

From the middle of the nineteenth century until the outbreak of the last war, the tariff policy pursued by the Government of India was based on the principle of Free Trade. This was in keeping with the traditional policy which England had followed for many years in respect of the Colonies. Since the days of the Industrial Revolution, England had gradually achieved the position of the principal supplier in the world of manufactured goods, which she exported in return for the foodstuffs required by her population. Hence the economic existence of England came to depend on a free and uninterrupted flow of trade with other countries. Free Trade became a necessity for her and what originated as a necessity gradually grew into a principle of universal validity.

As India was a Dependency, she was hardly in a position to assert her freedom in tariff matters, and Free Trade, which was the corner-stone of

England's economic policy, was imposed on her without sufficient regard for the circumstances of the country. When after the Indian Mutiny it became necessary to impose import and export duties as a means of relieving the financial situation, it was laid down as a general principle that customs duties should be levied only for revenue purposes and should not be employed as an instrument of Protection. Later in the century this principle was reaffirmed and it was specifically declared that where manufactured articles were produced by Indian industries, the protective effect of customs duties should be nullified by countervailing excise duties. The excise duty on cotton manufactures, which was for many years a controversial feature of India's revenue policy, was a result of the application of this principle.

The first stage in the evolution of Protection in India was the famous Parliamentary Resolution of August 1917 which initiated the constitutional reforms based on the Montagu-Chelmsford Report. That Resolution declared that the policy of His Majesty's Government, with which the Government of India were in complete accord, was 'that of increasing the association of Indians in every branch of the administration and the gradual development of self-governing institutions with a view to the progressive realization of responsible government in India as an integral part of the British Empire'. The principle of self-determination to which this Resolution gave expression carried with it as a necessary corollary

freedom to carry out modifications in the commercial and financial policy of the country. Public opinion in India as voiced by the elected representatives of the people was markedly in favour of a policy of Protection and it was, therefore, obvious that once the British Parliament accepted the principle of responsible government for India, the adoption of a policy of Protection was a matter of time.

That fiscal independence would be a logical consequence of the grant of responsible government was recognized by the Joint Select Committee of Parliament which examined the Government of India Bill of 1919. In their Report the Joint Committee expressed their views on this question as follows: 'Nothing is more likely to endanger the good relations between India and Great Britain than a belief that India's fiscal policy is dictated from Whitehall in the interests of the trade of Great Britain. That such a belief exists at the moment there can be no doubt. That there ought to be no room for it in the future is equally clear. . . . A satisfactory solution of the question can only be guaranteed by the grant of liberty to the Government of India to devise those tariff arrangements which seem best fitted to India's needs as an integral portion of the British Empire. It cannot be guaranteed by a Statute without limiting the ultimate power of Parliament to control the administration of India and without limiting the power of veto which vests in the Crown and neither of these limitations finds a place in any of the Statutes in the British

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Empire. It can only, therefore, be assured by an acknowledgement of a Convention.' This was the origin of the well-known Fiscal Autonomy Convention which was finally adopted in 1921. The Convention represented an important advance in India's progress towards self-government. Since the beginning of the British Empire in India, the main conflict between the two countries has centred round matters of trade and, therefore, the declaration of Fiscal Autonomy as a principle of government marked a stage of fundamental significance in the relations between the two countries.

Apart, however, from the fact that it set forth a new principle of constitutional importance, it is doubtful whether in effect the advance was as great as was expected at the time of its introduction. The Convention states that the Secretary of State should as far as possible avoid interference as regards tariff arrangements when the Government of India and its legislature are in agreement and that his intervention, when it does take place, should be limited to safeguarding the international obligations of the Empire or any fiscal arrangements within the Empire to which His Majesty's Government is a party. What happens in actual practice is that all tariff arrangements are first discussed by the Government of India with the Secretary of State. Although the proposals which the Government place before the legislature are arrived at by them on their own responsibility, previous consultation with the Secretary of State is an invariable feature of the procedure followed by the Government in determining their own

proposals. Moreover, if—as often happens—the legislature does not accept the Government's proposals, the Convention becomes inoperative and the Government of India resume consideration of the proposals as a subordinate government under the control of the Secretary of State. In spite of the autonomy provided in the Convention, it is obvious that the Secretary of State still holds a position of great influence in the determination of tariff arrangements in India and, as the Government of India hold authority under the Secretary of State, it is a legitimate inference that the fiscal autonomy provided by the Convention lacks substance. This impression is strengthened by various cases which have occurred during the past twenty years where the recommendations of the Tariff Board as well as those of the non-official section of the legislature have been rejected by the Government of India.

The final stage in the evolution of a protective policy in India was the publication of the Report of the Indian Fiscal Commission in 1922 and the acceptance of their main recommendations by the Government of India in 1923. The policy which resulted from the report of the Indian Fiscal Commission is what is known as Discriminating Protection. Under this policy not all industries are eligible for Protection but only industries which fulfil certain necessary conditions. These conditions as stated in the Majority report of the Fiscal Commission are as follows:

(1) The industry must be one possessing natural advantages such as abundant supply of raw material,

cheap power, a sufficient supply of labour or a large home market. Such advantages will be of different relative importance in different industries but they should all be weighed and their relative importance assessed. The successful industries of the world possess certain comparative advantages to which they owe their success. No industry which does not possess some comparative advantages will be able to compete with them on equal terms and, therefore, the natural advantages possessed by Indian industry should be analysed carefully in order to ensure as far as possible that no industry is protected which will become a permanent burden on the community.

(2) The industry must be one which without the help of Protection either is not likely to develop at all or is not likely to develop so rapidly as is desirable in the interests of the country. This is an obvious corollary from the principles which have led us to recommend Protection. The main object of Protection is either to develop industries which otherwise would not be developed or to develop them with greater rapidity.

(3) The industry must be one which will eventually be able to face world competition without Protection. In forming an estimate of the potentialities of this condition being fulfilled, the natural advantages referred to in condition (1) will, of course, be considered carefully. The importance of this condition is obvious. The Protection we contemplate is a temporary Protection to be given to industries which will eventually be able to stand alone.

The conditions laid down by the Fiscal Commission closely follow the line of thought by which the protection of an infant industry was recognized by the older economists as a legitimate

exception to the doctrine of Free Trade. Protection, that is to say, is to be granted only to such industries as have a reasonable chance of establishing themselves in the country and only as a temporary measure to enable them to surmount the period of initial struggle. Although the conditions formulated by the Fiscal Commission are generally unexceptionable in theory, the way in which Protection has been administered with reference to these conditions has been the subject of considerable criticism.

The first condition is that the industry concerned should possess natural advantages such as a local supply of raw materials, adequate market, etc. The factors mentioned in this condition are illustrative of the kind of natural advantages which an industry applying for Protection should possess. It was not intended by the Fiscal Commission that any one of these factors or all of them should be necessarily present, but that, on a general review of the position of the industry, it should be established that the balance of advantage is in favour of the industry. In recent years the Government of India have placed a more rigid interpretation on this condition and have insisted that the principal raw materials required for the industry should be available in India before Protection can be granted. The application of the glass industry was refused on the ground that soda ash was not available in India, although in the opinion of the Tariff Board, on a review of all the circumstances, the industry possessed sufficient advantages to compensate it

for the absence of soda ash. In the earlier years the Government of India had adopted a more liberal interpretation of this condition. For instance, the match industry was declared protected although an essential raw material, wood of quality suitable for the manufacture of splints, was not, in the opinion of the Tariff Board, available in commercial quantities in India. The interpretation placed in recent years is neither fair to Indian interests nor justified by economic considerations. The cotton textile industry has established itself as one of the most important industries in England and in Japan. In neither case is the principal raw material, raw cotton, present in the country of manufacture. The rubber goods industry is one of great importance in the U.S.A., but America does not produce natural rubber.

The second condition is that the industry cannot develop unless Protection is given. This is really a truism and can hardly be called a condition because if the industry is in a position with reasonable economies to carry on without Protection, the effect will necessarily be reflected in the estimate of the degree of Protection required by the industry. If the industry can stand competition unaided, the margin between the import price and the fair-selling price which, according to the practice of the Tariff Board, measures the amount of Protection required will reach vanishing-point.

The third condition requires that the industry will be able eventually to dispense with Protection. This is really the effective condition of

Discriminating Protection because if this condition is satisfied, it necessarily implies that the first condition is also satisfied. It is obvious that unless there is a balance of advantage in favour of an industry, it cannot establish itself eventually. In actual practice it is most difficult to express an opinion of even approximate accuracy regarding the applicability of this condition. It is practically impossible even for the best-informed and most competent Tariff Board to forecast the position of an industry over a period of years so as to judge with sufficient precision whether it will eventually require assistance or not. The economies in costs of production and the level of import prices which may eventuate during a specified period depend on so many uncertain factors that no Tariff Board can be expected to pronounce a reasonably valid judgement on the extent to which an industry fulfils this condition. In the whole course of the Tariff Board's existence there has been only one case in which the Board has declined to grant Protection to an industry on the ground that it will not be able to dispense with Protection eventually. This is the magnesium chloride industry. The Tariff Board declined to grant Protection to the industry in 1924 on this ground. The Government accepted the Tariff Board's conclusion. Three years later, in pursuance of the Government's policy of reducing or abolishing the duties on materials required by the cotton textile industry, even the revenue duty on magnesium chloride was removed. In 1928 the industry came up

again for Protection and in this inquiry it was found by the Board, on a review of costs and prices, that the industry would not merely be able to dispense with Protection ultimately, but that it did not require any greater assistance than the restoration of the original revenue duty. The case of the magnesium chloride industry provides an interesting illustration of the practical difficulties involved in the application of the crucial condition on which Discriminating Protection is based.

In spite of these criticisms of the policy of Discriminating Protection, it is necessary, if we are to form a fair and correct judgement regarding its working, to recognize the substantial successes achieved by it. The progress made by industries which have received Protection is illustrated by the following figures:

	Steel (ingots)	*Cotton Piecegoods*	*Sugar* (Direct from cane)	*Match*	*Paper*
	1,000 tons	Million yards	1,000 tons	Gross (lakhs)	1,000 tons
1922-3 ...	131	1,725	24	8	24
1939-40 ...	1,070	4,013	1,242	220	70

It is a remarkable fact that while industrial production in most countries showed a heavy decline during the period of the great depression which started in 1929, the output of the principal industries in India showed a steady and, in

some cases, a marked increase. The favourable position in which India found herself during this period as compared with other countries was due largely to the fact that it was during these years that the effect of the policy of Protection began to manifest itself. Whatever criticism may be made regarding the protective policy adopted in India, the immediate success of that policy, as disclosed by these facts, deserves recognition as an achievement which testifies in some measure to its soundness and efficacy.

The question has often been asked what the burden which Protection has thrown upon the community has been. Several attempts have been made by economists in India to estimate the cost of Protection to the community, but none of them has yielded any reliable conclusions. There are certain elements in the burden of Protection which in the nature of things are almost impossible to assess accurately. We can measure the variation in the prices of individual commodities since the grant of Protection, but unless we can at the same time determine the extent to which foreign manufacturers have reduced their prices in the Indian market in consequence of Protection and also the level of prices which might have ruled in the country if no Protection had been granted, no correct estimate can be made of the burden of Protection. In view, however, of the character of most of the commodities which bear protective duties in the Indian tariff system, it is possible to venture the opinion that such burden as Protection has in-

volved has been borne in the main by the more well-to-do classes in the country.

II. Future Industrial Development and Tariffs

In any scheme of economic reconstruction in India after the war, industrialization is bound to occupy an important place. There has been for many years a strong and widespread feeling in the country that a rapid development of industries is essential to economic progress. The extent to which Indian industries have expanded under the stress of war requirements has given further impetus to the demand for industrialization.

The most important reason why we want more industries in the country is that they will help to bring about a more balanced economy. At present we are dependent to a preponderant extent upon agriculture as our means of livelihood. This is, to say the least, a precarious position since agriculture is conditioned largely by climatic factors and in our country principally by the state of the monsoon. The failure of the natural factors on which agriculture depends may cause such serious damage to crops as to affect vitally the resources of the population during the year. It is necessary to offset this by the establishment of manufacturing industries which depend less directly upon natural conditions. The precariousness of an economy which depends primarily upon agriculture is not merely confined to the livelihood of the population, but affects also the financial resources of the Government. Indian

budgets, especially in the Provinces, are so largely determined by the condition of the crops that the natural factors affecting agriculture are a matter of grave concern to the Government.

Closely connected with this is the consideration that the establishment of more industries in the country will help to some extent to relieve the terrific pressure which the population exerts upon the land. It is the increasing pressure exerted by a growing population upon the land which accounts for one of the gravest difficulties of our agricultural economy, namely, the increasing tendency to minute division and fragmentation of agricultural holdings. It is extremely difficult to introduce improved methods of agriculture unless some check is placed upon this tendency. If some alternative occupation could be found for people, to that extent we might be able to check the tendency to land being divided up into holdings too small for economical cultivation. In this sense, therefore, industrialization may be a means of improving the condition of agriculture and rendering it more profitable.

From an economic point of view, one of the great needs of India is to promote the habit of investment. We have made great progress in this respect in recent years and as far as the more well-to-do sections of the population are concerned, capital can no longer be regarded as shy to any exceptional extent; the habit of investment has become widespread. But among the great mass of the population there is a large need still for stimulating the habit of investment. The

formation of well-organized industries by joint-stock companies under reputed management would afford facilities for people of limited resources to invest in industrial shares. The practice of investment thus stimulated will not merely make available more resources for the financing of industries, but by checking the habit of hoarding increase the funds available for permanent improvements to agriculture. If money were released more widely for investment purposes, it would help to bring down the unduly high rates of interest which prevail in villages.

There are certain elements of mental outlook and character which participation in large mechanized industries is calculated to promote, such as alertness, application, decision, and resourcefulness. Agriculture, to the extent that it depends so largely on the forces of nature, tends to produce a passive outlook and the long periods of seasonal unemployment incidental to it create an attitude of general lethargy. There are undoubtedly valuable traits of character which an agricultural environment helps to produce and much of what is often described as the spiritual heritage of our people is to be traced to the agricultural environment in which we live and work. But in the workaday world in which we are placed, this needs to be supplemented and corrected by habits associated more directly with an industrial environment.

Lastly, the need for an increase in the national income constitutes an important argument for industrialization. Although it is not to be expected that an increase in industrial production will lead

to a proportionate increase in employment, there can be no doubt that industries will add substantially to the total national income and thereby increase the resources available to the state for financing schemes of social and economic improvement.

Not long ago it was a widely accepted belief that countries such as India were under certain permanent climatic disabilities as regards the establishment of large-scale mechanized industries. The advance of science and technology is rapidly enabling such countries to overcome the disabilities imposed by nature. Fifty years ago an industry involving operations at high temperature, such as the sheet iron industry or the tinplate industry, would have been considered impossible in India. But the introduction of suitable cooling arrangements and the construction of factories with high roofs and good ventilation have eliminated this difficulty and have enabled these industries to establish themselves. Similarly artificial humidification has enabled the cotton textile industry to operate efficiently in regions where the existence of a relatively dry climate might otherwise have proved a serious handicap.

The objection has often been raised that if India were in a position to produce the manufactured goods she now imports, the consequent reduction in our import trade would render it difficult to find the foreign exchange necessary to finance our large export trade in agricultural commodities. It has been urged that the growth of industrial development will, therefore, react

adversely upon the marketing of India's staple agricultural products. During the ten years preceding the outbreak of this war, there was a considerable increase in industrial production in India. In cotton manufactures, in steel, in sugar, in matches, in cement, the great bulk of the country's requirements was met by local production, but it could not be said that in consequence of this there was such a decline in the exchange resources available to our customers abroad as to imperil our export trade. The truth is that when an increase takes place in industrial production, new avenues arise for the utilization of imported articles which, provided industrialization proceeds gradually and at a moderate pace, will be sufficient to cover exports. The additional income produced by industrial enterprise must either be saved or be spent. If it is saved, then it induces further investment in industries and further expenditure on products essential to industrial development which cannot be obtained locally. It is significant that while there has been a decline in recent years in the imports of consumable goods into India, there has been at the same time a very large increase in the imports of such articles as machinery and chemicals which are required by industries. If the surplus wealth produced by new industries is spent and not saved, then it often happens that the demand for many articles, especially luxury articles, will increase and these will be imported from other countries, thus helping to maintain the import trade. The argument that because

exports must be paid for by imports, the starting of industries for the production of imported articles will hinder the export trade of the country assumes a certain static character in the demand for commodities and in the composition of foreign trade which has not so far been borne out by the statistics of Indian trade. While this is true under the conditions now prevailing in India, it is likely that if a plan for industrial development is adopted which aims at a rapid and extensive establishment of industries, a different situation may arise. The issues which this will raise will be considered later.

If industrialization is a matter of great importance to the economic progress of India, the question of tariffs as a means of assisting the development of industries requires examination. As far as one can judge at present, it is likely that in the next few years Protection will assume less importance in the economy of the country than it has done in the past. The object of Protection is to help local industries against foreign competition and, therefore, the necessity for maintaining a policy of Protection will depend on how far Indian industries will be exposed to competition from other countries. It is clear that so long as the war lasts, the abnormal demand for articles of all kinds for war purposes, the restriction of imports and the difficulties of shipping and of foreign remittance will largely eliminate foreign competition in manufactured goods. It is also extremely probable that for several years after the termination of hostilities the same conditions will

prevail. How long they will last is a question to which a definite reply is hardly possible at the present stage. There is, however, one aspect of the post-war situation regarding which it is possible to speak with some assurance. The colossal destruction of material assets which the present war has caused will call for a prolonged period of reconstruction on an extensive scale so that the duration as well as the extent of reconstruction required will far exceed what was found necessary after the last war. It is reasonable to anticipate that for a period of approximately five to ten years from now, the demand for consumable as well as capital goods will outstrip supply and existing industries in all countries will be kept more or less fully occupied. The problem during this period will be how to meet a reviving demand from countries which have been starved of goods with the limited supply available rather than to restrict supplies so as to avoid overproduction and uneconomic competition.

During this period of comparative freedom from foreign competition, Indian industries will enjoy a further advantage due to geographical and administrative factors. This advantage arises from the fact that Indian industries have access to a large internal market covering the whole country with no customs barriers between its different parts. The advantage will, of course, be diminished if, in response to sectional demands, the country is partitioned into separate and completely autonomous administrative jurisdictions. Even if such partition takes place, it will be possible,

without infringing autonomous rights, to make provision for customs arrangements between the separate Governments which will maintain the whole of India as a Free Trade area for purposes of internal trade. An additional advantage which Indian industries will have in the next few years is that in consequence of the large increase in the prices of agricultural and industrial commodities due to war conditions, the purchasing capacity of India's internal market will have increased considerably as compared with pre-war years. Conditions, therefore, appear to be particularly favourable to a rapid development of industries in India in the near future.

If the foregoing estimate is correct, the assistance which Indian industries will require from the state will be direct assistance in such essential matters as finance for capital requirements, scientific research, transport, education and public health rather than the kind of indirect assistance which protective tariffs afford. Tariff assistance has its uses under certain conditions, but it serves no purpose and may prove worse than useless if the conditions required for efficient and successful operation of industries are lacking. The chief abuse to which a protective policy is liable is that the immediate relief which it affords is apt to make both the Government and industrialists oblivious to the fundamental factors which determine the growth of virile and healthy industries. From this point of view it is fortunate that in the years which lie immediately ahead, Indian industries, freed from the fear of

uneconomic competition from abroad, will be in a position to direct their attention to the vital question of internal reorganization. In the accomplishment of this task, the state will necessarily have to play a very important part. But the state will not fulfil its part as it ought to unless it learns to think in larger and more constructive terms of its responsibilities and to quicken the pace of its activities. Protection by tariffs is a matter which even the stalest bureaucracy can handle with apparent success. But the internal reconstruction necessary for a vigorous, forward-looking policy of industrial development will call for energy and vision such as only a National Government responsible to the people and sensitive to their aspirations can possess.

The conclusion suggested by the preceding discussion is that in the period immediately following the termination of the war, protective tariffs are not likely to play an important role in our industrial policy. The question still remains what our policy in the long run is to be as regards protective measures which involve restriction of trade. When the disorganization caused by the war has been remedied and the transition to a normal peace economy has been completed, problems of trade competition may arise again not dissimilar to those which arose during the inter-war period. If that happens, it is well to remember that the trend of the best thought in progressive countries is definitely opposed to a perpetuation of national barriers to the free movement of trade. The demand for freer inter-

national trade is based on the unanswerable plea that a world economy which is based on an expansionist rather than a contractionist outlook on trade is in the long run the best for all countries. To this plea a free India cannot return a blank negative without damaging her position in the eyes of the rest of the world and without ultimately stultifying herself.

A plan for an international trade agreement after the war which would not involve too violent a break with the existing system was recently proposed by the Chairman of the Lancashire Cotton Board in an address to the American Chamber of Commerce in London. The following is a brief summary of his proposals:

> The plan is based on a universal system of agreements, each arranged in two parts. Part I would comprise all goods not subject to 'disturbing influences'. For this group of goods, there should be no quotas, prohibitions or discrimination, and no licences, except in so far as these may be temporarily necessary for reasons of exchange; and no country would be allowed to levy import duty higher than 25 per cent *ad valorem*. Part II, on the other hand, would include commodities subject to disturbing influences, such as the transition from war to peace, structural changes in production caused by the war, competition arising from different standards of living, the trade cycle, and the impact upon industry and trade of scientific progress and air transport. Such goods would be given special treatment by means of volume control, price control, buffer stocks, lend-lease exchanges, or exceptional tariff rates. No commodity would be eligible for Part II unless it could be shown that trade in it was clearly and substantially influenced by one of the five special factors, and that it formed an important percentage either of the trade

between two negotiating countries, or of the total economic activity of one of them. Third-party countries may have to be informed beforehand of commodities for which special treatment was claimed, and, if some international economic council were formed, it should be informed of all Part II agreements which, moreover, might be subject to a time limit. If special treatment can no longer be justified for particular goods, these should be transferred to Part I; similarly, there should be provision for transferring goods from Part I to the group of commodities eligible for special treatment. Part II should not become a refuge of inefficiency.

From India's point of view this plan appears to provide a hopeful line of approach to the difficult question of international agreement in trade matters. Subject to suitable adjustments in matters of detail, India's interests will be sufficiently safeguarded under such an arrangement if, *first*, the disabilities to which industrially backward countries are subject by reason of the earlier start which other countries have obtained are included among the 'disturbing influences' which would justify special treatment of certain commodities; and, *secondly*, it is laid down that the agreement will not prejudice the right of each country to decide ultimately for itself what action it will take in regard to commodities which in its opinion are of special importance in the national economy, judged not merely by the volume of trade in these commodities but also by their intrinsic character.

The principal class of industries in regard to which India's right to make her own tariff arrangements should be unhampered is what are

generally referred to as key industries. These comprise industries which are essential for defence purposes and also industries the products of which are indispensable to other industries. India in recent years has made substantial progress in the development of industries producing consumable goods, but she still lacks even the minimum equipment of key industries required for a country of her area, population and potential resources. No trade agreement which is likely to limit her freedom to develop essential industries can be accepted by her at the present stage of her economic development. Unless India is allowed to retain complete freedom of action as regards these industries, she cannot afford to participate in any scheme of international trade agreement. It is necessary to call attention to this fact since in the discussions which are now taking place in Allied countries regarding resumption of trade after the war, too little attention appears to be paid to the position of countries whose economy still remains predominantly agricultural but whose future welfare is bound up with a large measure of industrialization. Among advanced industrial countries the present position of industrially backward countries is apt to be regarded as a permanent feature of world economy. Unless, therefore, public opinion is organized and practical measures are taken in time, there is a danger that the case of countries like India will go by default and their ability to redeem the situation be seriously crippled.

In considering the place of India in post-war

international trade, some reference should be made to the international currency schemes which are now under discussion in the United Kingdom and in the United States of America. There are important differences of detail between the schemes propounded in the two countries. But the main object is the same, namely, to remove the difficulties in discharging international monetary obligations which were so marked a feature of the inter-war period. These difficulties arose chiefly from two circumstances. One was that gold, which was the medium by which in the last resort international payments used to be made, became inaccessible to most countries because of the huge reserves accumulated in other countries, principally the U.S.A. The other was the desperate efforts made by several countries during the period of the great depression to retain and extend their share of foreign trade through the temporary advantages resulting from the depreciation of national currencies. The solution proposed in both the British and the American schemes is the creation of an international institution in which a sufficient measure of control and financial resources is vested by the participating countries for facilitating remittances and for preventing frequent and excessive variations in exchange rates.

While both the schemes are primarily concerned with the monetary mechanism required for the purpose, it is essential to the successful working of any arrangement for stabilizing exchange rates and liquidating trade obligations that it should

take into account the need for securing as far as possible a proper balance of exports and imports over a period. Now that gold is no longer available freely as a medium of international exchange, a scheme for removing monetary obstacles to international trade cannot work in the long run unless at reasonable intervals the goods and services exported by a country can be paid for by the goods and services imported by her. Hence it follows that the question of an international monetary mechanism inevitably brings into issue the trade policy, particularly with reference to tariffs, pursued by the countries participating in it. Whether the question is held over for the time being or not, ultimately there is no escape from the fact that the monetary issue and the tariff issue are bound together and cannot be separated logically. Whatever may be the fate of the particular schemes now under discussion, all experience in recent years points to the conclusion that some arrangement on these lines must be devised unless trade and consequently production throughout the world are to be progressively curtailed. For this reason it is important for India to determine beforehand what her attitude is to be towards a policy of Protection consistently with her obligations as a member of the comity of nations. This problem, as pointed out before, is not likely to assume an acute form in India in the years immediately following the termination of the war. But when the pressure exerted by reconstruction and relief measures upon the world's available supplies of goods ceases, a period of severe

competition in trade may again arise and a policy of restricting imports as a means of safeguarding industries may become again a live issue. It is necessary, therefore, for India's leaders to make up their minds as to the limits within which protective measures may be employed in the country so as to secure, on the one hand, that India's vital interests do not suffer damage and, on the other hand, that India's action does not needlessly contribute to the dislocation of world trade.

On the assumption that India will at an early date attain complete freedom in shaping her economic policy and that conditions will continue to be favourable to industrial development as they happen to be at present, it may be taken for granted that a big drive towards industrialization will be launched in the country in the very near future. It is not possible at this stage to determine precisely what the effect of a plan for extensive industrialization in India will be on her foreign trade. Some general considerations, however, may be indicated. From the point of view of organizing new industries in the country, the great lack at present is capital goods such as plant and machinery and technical skill and experience. For these India will be dependent for a considerable period to come upon foreign countries. In other words, if she is to achieve her object of bringing about a substantial change in the present balance between agriculture and industry, she must be prepared for a large-scale importation of the capital goods and technical services necessary for establishing new industries. To some extent

these imports will be paid for by the sterling balances which she has accumulated during the war. But if the industrial planning proposed is to be on a scale sufficient to make a real change in the economic structure of the country, the cost of the capital goods and services required will be far in excess of the credits held by her abroad at present and also of any additions which may be made to them during the rest of the war. India over a long period has had a favourable balance in respect of her trade in commodities which has been largely utilized for the payment of interest on her borrowings abroad. A substantial part of these obligations has now been transferred to India and it is likely, therefore, assuming pre-war trade figures, that she would have a larger balance in her favour after the war. Even this will be absorbed, and more than absorbed, by the payments due from her in respect of capital goods and services. Any large scheme of industrial planning, therefore, which India may adopt will perhaps for a period of a whole generation place her in the position of a net importing country. During this period it will be necessary for her to restrict imports of such consumable goods as may be produced in sufficient quantities within the country so as to conserve her exchange resources as far as possible for the purchase of plant and machinery from abroad.

If, therefore, India chooses to enter into a trade agreement of the kind referred to earlier in this discussion, the position will be that while the execution of an industrial plan is in progress, it is

consumable goods which will mainly fall within the category of articles requiring special tariff treatment. This, however, will be a temporary phase. On the other hand, when the execution of the plan has been completed, the position will be reversed and capital goods will replace consumable goods in the schedule of commodities eligible for special treatment. In any scheme of industrial planning for India, the primary consideration should be to establish those key industries which are indispensable to further industrial development and without which no real progress can be achieved. When these industries have been started, protective measures for their maintenance against foreign competition will be a matter of the utmost national importance and provision for such measures should form a vital part of any trade agreement which India may adopt. The principal industries producing consumable goods are now fairly well established in the country and, barring abnormal conditions, a policy of high tariffs or similar restrictive measures will be hardly necessary for their protection. The necessity for the inclusion of such goods in the initial years of industrial planning within the category of articles calling for special tariff treatment does not arise from protective considerations but rather from the need for conserving foreign exchange for financing the purchase of capital goods.

Three possible stages, then, may be distinguished in the development of Indian trade policy after the war. *First*, during the years immediately

following the termination of hostilities, it will not be necessary to adopt a policy involving other than a moderate restriction of imports as regards consumable as well as capital goods. *Secondly*, while a large-scale industrial plan is under way, its successful prosecution will call for a policy of high tariffs or similar restrictive measures for consumable goods and a policy of low tariffs and generally of free trade in capital goods. *Thirdly*, when the more essential industries envisaged in the plan have been established, the weight of restrictive measures will be shifted from consumable to capital goods. Since restriction in the case of capital goods, if enforced by means of high import duties, will lay a heavy burden on all industries, other measures of protection will have to be devised for the assistance of Indian industries producing such goods.

The argument of this pamphlet may be summed up as follows. India needs, and without delay, to take a big forward step in industrial development. The present is in many ways a favourable time for initiating it. It requires, however, as an essential pre-requisite the formation of a truly representative government in the country. With the assistance which the state can provide under a National Government, the present ill-balanced economy can be rectified within a measurable period of time. Although during this period India will be preoccupied with the measures needed for her own economic salvation, she cannot forget that she has also duties to other nations. Indeed, her own interests require that she should

develop an international outlook in economic matters. She must, therefore, be prepared in spite of self-regarding preoccupations to respond to any reasonable appeal which may be made to her for economic co-operation with other countries. It is within the bounds of practicability to devise a scheme for international agreement in trade matters in which India may participate without detriment to her own interests. The time has come for India's leaders to set themselves to explore the lines along which India's interests and her obligations to the world can be successfully reconciled in the economic sphere.

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